

## **CALIFORNIA FRANCHISE TAX BOARD**

Internal Procedures Manual

General Tax Audit Manual

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### **4000 PRE-AUDIT ANALYSIS**

Pre-audit analysis will help you determine whether to begin an examination.  
During pre-audit analysis:

- Analyze an entity.
- Scope returns (physical or online).
- Review the ownership hierarchy.
- Determine the audit history of the taxpayers.
- Evaluate the impact to future tax years.

GTAM 4100	ENTITY ANALYSIS
GTAM 4200	SCOPING (AUDIT SCOPE DETERMINATION)
GTAM 4300	SURVEYS
GTAM 4400	REQUESTING RETURNS
GTAM 4500	REFERRALS

Reviewed: April 2003

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### 4100 ENTITY ANALYSIS

PASS contains much of the taxpayer information needed when scoping the case. However, PASS does not replace the BETS (Business Entity Tax System) or the TI (Taxpayer Information) system. When reviewing the taxpayer, look at the taxpayer's BETS or TI account. Here are some items to look for:

- **Taxpayer Address** - Verify the correct taxpayer address.
- **Prior Notices** - Look for and verify the status of all prior year notices. Is the same issue under examination?
- **Comments** - Read all comments posted to the taxpayer's account.
- **Amended Returns** - Check for amended returns filed for the years under examination.
- **Statute of Limitations** - Compare system filing dates to the dates stamped on the physical returns.
- **Line Item Amounts** - Compare the specific line item amounts on the system with those on the physical returns.
- **Penalties** - Does the system show penalties assessed after the filing of the original returns?
- **Bankruptcy** - Is the taxpayer account flagged for bankruptcy? Should the account be flagged for bankruptcy? See GTAM 20100, *GTA Bankruptcy Procedures - Introduction*, for additional information.
- **Refunds** - Were amended returns filed? Were refunds sent? Payments received?
- **Corporate Status** - Is the corporation *Active*, *Suspended*, *Inactive*, etc.? Is there a corporate assumer?

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### **4200 SCOPING (AUDIT SCOPE DETERMINATION)**

Scoping is a critical step in the audit process. Focus on the issue's materiality. You must decide if an audit justifies the commitment of resources. If you decide there is little or no audit potential, survey the returns. If you are uncertain, you should discuss the issues with the audit supervisor.

There are many facts and circumstances that indicate whether to pursue an examination. Examine each case on its own merit.

GTAM 4210          Audit Program Worksheet (Scope Sheet)

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### **4210 Audit Program Worksheet (Scope Sheet)**

Use the *Audit Program Worksheet/Scope Sheet* (Form FTB 6833) to identify all material items that need further investigation. You can find this form on PASS. Use the Worksheet to identify audit issues and any supporting documents or data you will need.

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### 4300 SURVEYS

If, after scoping the returns, you determine an examination is not warranted, recommend a survey of the returns. While the decision to survey a return is usually your decision, in certain situations your supervisor or lead may review the recommendation.

When returns are surveyed, write "S" (for *survey*), followed by your initials, on the upper right of the return.

You may survey a case without opening it for audit.

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### **4400 REQUESTING RETURNS**

GTAM 4410	Alternative Methods (Non-PASS)
GTAM 4415	Rush Telephone Requests
GTAM 4420	Requesting Federal Information>Returns
GTAM 4430	Unfiled Returns Received during an Audit
GTAM 4440	Document Locator Number (DLN)
GTAM 4450	Requesting Returns From R&S PIT Sample

Reviewed: November 2004

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### 4410 Alternative Methods (Non-PASS)

You may request tax returns from Data Services and Storage Section through PASS, video request, or rush telephone request.

If the taxpayer has filed an amended return for the years you are requesting, also request these.

You may also use a paper request (Form FTB 6180) for Form FTB 540, Form FTB 541, and Form FTB 565. It may take three to four weeks to receive the tax returns. To shorten the time, write "RUSH" in red across the top of the form. If the tax return is not available from Data Services and Storage Section, "outsearch" the missing return. During an "outsearch," Data Services and Storage Section staff physically looks for the return in other units.

To request an outsearch, use the *Corp. Folders Request* - Form FTB 6237 or the *Request and In-Lieu Form* (Form FTB 6180). You can also use the form returned by Data Services and Storage Section (including any "out" information) to request an outsearch. Write, "*please outsearch*" on the returned forms. You should also indicate a search date (not to exceed 30 days) in the upper right corner.

If they cannot locate the folder by the search date, Data Services and Storage Section returns the request as unable to locate. If you still need the folder, provide another outsearch date and resubmit.

For telephone requests, call Data Storage only for:

- Protest cases.
- Legal cases.
- Sensitive cases.
- Claims.
- Cases involving jeopardy assessments, tax clearance, short statutes, or misapplied payments.

If the tax return is not available from Data Services and Storage Section, "outsearch" the missing return. During an "outsearch," Data Services and Storage Section staff physically looks for the return in units other than its own.

If you receive "out" information that the return is out to units 732, 790, or PIT Sample, notify a PIT supervisor to request the return.

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### 4415 Rush Telephone Requests

When you need to make a rush telephone request for a tax return, please contact the appropriate location.

<b>Central Office</b> <b>Rush Request Line: * * * * *</b> <b>Mail Stop: C-2</b>	<b>Depot Park</b> <b>Rush Request Line: * * * * *</b> <b>Mail Stop: C-2</b>
PIT Process Year 1999 (Tax Year 1998)	PIT Process Year 1998 (Tax Year 1997)*
PIT Process Year 2000 (Tax Year 1999)	PIT Process Year 2001 (Tax Year 2000)
PIT Payment Documents – all	BE Payment Documents – all
565 Partnership	BE Returns – all
541 – Fiduciary (Estates and Trusts)	LLC
HRA Claims	BE NPA, Jeopardy Assessments, Exempts, etc.
	PIT LIM
	PIT NPA

**NOTE:** ((\* \* \*)) = Indicates confidential and/or proprietary information that has been deleted.

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### 4420 Requesting Federal Information/Returns

Request all federal tax information on the *Federal Tax Information Request - Form FTB 6227*. Type or print each request in ink.

Once the reviewer (IRS designee) reviews and signs it, put the form in the appropriate sort bin or route it to:

\* \* \* \* \*

The reviewer's signature certifies the requestor has a *need to know* and the information contains only what is necessary to resolve tax issues.

#### NOTE:

- Do not *send the Federal Tax Information Request - Form FTB 6227 directly to IRS*.
- If a second request is necessary, write "SECOND REQUEST" on the 6227 request form.

Complete a separate request for each taxpayer. For taxpayers filing jointly, only one request is necessary. You can request more than one tax period *and* more than one type of IRS document on the same 6227 request form.

You can request the following types of information from the IRS:

**MFTRA (Master File TRAnscripts) transcripts** - These files are the tax accounts for each tax year.

- Individual Master File (IMF) transcript for individual taxpayers.
- Business Master File (BMF) transcript for all business entities such as corporations, partnerships, and fiduciaries.

**RTVUE (Return View) or BRTVU (Business Return View)** - An electronic snapshot of the originally filed returns for the last four filed.

**Current Collection Information** – Request this information by writing, "*latest address*" or "*all levy sources*", on the "*Other (describe)*" line on the 6227.

**Copies of Revenue Agent Reports/Tax Returns** - To obtain copies of Revenue Agent Reports or tax returns, check the "*Photocopy of return*" or "*Photocopy of RAR*" boxes.

**Workpapers, Schedules, or Other Documents** - To obtain copies of Revenue Agent Report documents, workpapers, schedules, etc., write a specific description of the data on the "*Other (describe)*" line.

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**NOTE:** *Do not* give copies of IMF or BMF transcripts to taxpayers or their representatives. They contain “*official use only*” information. Advise taxpayers and their representatives to contact the IRS.

**NOTE:** Before requesting Revenue Agent Reports, tax return copies, workpapers, schedules, or other documents, get a transcript for each tax year. If the case has an open audit indicator or is currently in litigation, the IRS cannot provide the file until the case has closed.

If reviewing the transcript reveals that you need additional documentation, you may request Revenue Agent Reports, tax return copies, workpapers, schedules, or other documents. Attach the transcript fewer than 30 days old to the new request.

Requests for transcripts should take two to four days. All other information requests can take four to six weeks. If a second request is necessary, write “SECOND REQUEST” on the 6227 request form.

Stamp all audit files containing IRS information to indicate they contain confidential IRS tax information. Always keep the 6227 form used to request additional IRS data with the case. Never throw it away! Maintain the record until the file goes through the normal destruct process.

When we use an FTB form 6227 to request IRS tax information that ultimately does not result in a change to the California tax liability, upon closing the case, return the yellow route sheet with the 6227/IRS documentation attached, to:

6227 Tracking System  
Mail Stop D7

Include a copy of the 6227 request and indicate the results of the case on the form.

If Federal tax information (FTI) is transmitted to or from the central office to a field office, use a transmittal document and record the sending and verify receipt. Attach the transmittal document to the FTI, sign and date by the sending FTB representative. The recipient of the FTI will sign, date and fax the transmittal document to the number listed on the document.

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**NOTE:** All ADP/IDRS - Document 6209 books *must* be locked up when not in use. They contain "official use only" information.

If you have questions or need further information, you may contact the IRS Coordinator or Assistant Coordinator.

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### 4430 Unfiled Returns Received during an Audit

Occasionally, we receive returns during an audit, including amended or original returns. Date returns when you receive them. Route them to Audit Business Support for processing. Make a copy of the return to be included in the workpaper files. Mark the copy clearly as, "TAXPAYER'S COPY."

#### Procedure

- If the tax return is related to an ongoing audit, incorporate the information contained therein into the examination. Photocopy the return and write in red across the face of the return, "TAXPAYER'S COPY."
- Route the original return through Central Office Audit Business Support, Mailstop D-727, for processing. Include any specific instructions (e.g., requesting the tax return be returned to you after processing).
- Once the return is processed and online (usually about one week), update the case unit with the Document Locator Number and any other information available. You can retrieve this information without having to create a second case unit.

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For routing instructions, see GTAM 13700, *Routing the Physical & Electronic Files*.

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### 4440 Document Locator Number (DLN)

The Document Locator Number is a unique number assigned to a tax return. The DLN shown on PASS (the actual State Business Return Database (SBRD) DLN, and the DLN shown on BETS all differ from one another.

The DLN found on PASS is twelve spaces (only ten digits are visible), comprised of the following:

- Digits 1-2 are the process year
- Digit 3 is a filler (zero)
- Digits 4-8 are the DLN block series
- Digits 9-10 are the item/sequence number
- Digits 11-12 are spaces used as a placeholder for a possible suffix if needed later

The DLN found on BETS is a 13-digit number, comprised of the following:

- Digits 1-2 are the source input code (30 = EFT payments, 40 = regular payments, 50 = returns, etc.)
- Digits 3-4 are the process year
- Digit 5 is a filler (zero), but only on C-corporation & S-corporation returns\*
- Digits 6-10 are the DLN block series\*
- Digit 11 is a placeholder for a possible suffix if needed later
- Digits 12-13 are the item/sequence number

\* **NOTE:** Partnership returns have a six-digit DLN block series number, so there is no "zero" filler in that position on Partnership returns.

Examples: The DLN for the same corporation return shown on both PASS and BETS would be as follows:

#### **PASS**

DLN of 9701674107. Translated as follows: 97 = process year, 0 = filler, 16741 = DLN block series, 07 = item number, 2 spaces

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### BETS

DLN of 5097016741007. Translated as follows: 50 = source input document was a paper return, 97 = process year, 0 = filler, 16741 = DLN block series, 0 = placeholder, 07 = item number

Except for a corporation, tax returns are filed in DLN order. Consequently, it is important to locate the DLN clearly on the face of the return. Do not cover the DLN with holes and/or fasteners. If the DLN becomes covered, rewrite the number in the same color as that stamped on the return. If a file does not have an associated DLN, Data Services and Storage Section files the case in alphabetical order. Make sure the face of the physical workpaper file clearly shows the taxpayer's name, tax year, and social security number/corporation number or taxpayer identification number. If this information is missing, write it in red in the upper right hand corner.

If we issue a Notice of Proposed Assessment without a return (Notice of Proposed Assessment Circle File), Data Services and Storage Section files the case in Notice of Proposed Assessment number order. When Data Services and Storage Section searches for a document with a LIM date, it checks all appropriate files.

See GTAM 13242, *NPA Circle File*, for additional information.

See GTAM 13800, *Preservation of Audit Files (LIM Dating)*, for additional information.

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### 4450 Requesting Returns From R&S PIT Sample

In situations where our information indicates that the returns are out to the R&S PIT Sample, follow these procedures. Our agreement with R&S allows PIT Audit to obtain returns only under certain circumstances. The following represents the proper procedures for requesting returns:

- 1) Request the return normally through TI.
- 2) If our information indicates that the return is out to 732, 790 or PIT Sample, send an e-mail with the DLN to \* \* \* \* \*  
\* \* \* \* Please indicate where you would like the return sent.
- 3) The request will be processed within 14 days.

It is very important that the auditor or supervisor NOT contact R&S directly. Any questions regarding the status of the request please contact \* \* \* \* \*

We have to assure that these procedures are followed, so not to jeopardize our arrangement with R&S.

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### 4500 REFERRALS

You may refer cases or case units between audit programs or offices because of:

- Your evaluation of the file,
- A request from another auditor, or
- A request from the taxpayer after an examination has begun.

Before transferring any case, you must contact the recipient unit or auditor to determine if a transfer/referral is feasible, considering workload constraints. If they accept the case, *remember to notify the taxpayer of the case transfer.*

The two forms used to route files are:

- **Messenger Service Route Slip - Form FTB 7000** - The route slip provides delivery from mail stop to mail stop within the next business day.
- **Hand Delivery Order - Form FTB 7545-C** - The pink hand-delivery order provides delivery to a specified individual within a specified period. Use this form only when a package contains sensitive information or if the route slip time frames do not meet your needs.



#### Transferring Auditor

- Before transferring any case, contact the recipient unit or auditor. The auditor transferring the case must notify the taxpayer of the case transfer.
- Complete the *Audit Report - Form FTB 6430* (see GTAM 13230, *Complete the Audit Report – Form FTB 6430*). Include your and the audit supervisor's telephone number. The *Audit Report* serves as a transmittal document. Attach a copy of this form to the physical file. In the special remarks section, state the reason for the referral, and the model number. Create both a physical and electronic *Audit Report - Form FTB 6430*. Each should note that there is an associated electronic/physical file.
- Complete the *Messenger Service Route Slip - Form FTB 7000*. Include the correct Mailstop (see the EMC bulletin board "MAILSTOP" for a complete listing of mailstop codes). In the comments section,

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state the taxpayer name, TPID, tax years, reason for the referral, and model number.

- Assemble the physical file (see GTAM 13260, *Assemble the Physical Case*). The physical PASS file is comprised of the Received Correspondence Index, the Received Correspondence (which includes photocopies, exhibits, and other miscellaneous items), and the tax returns.
- For non-PASS cases, physically route the complete file.
- Attach the *Messenger Service Route Slip* to the physical file, and route.
- Transfer the electronic file to the new owner.
- Remember to close or transfer the case on any applicable non-PASS inventory system.
- If the case includes a Statute of Limitations waiver, attach the original waiver to the face of the return to which it applies. (see GTAM 10220)

#### **Receiving Auditor**

- Notify the taxpayer when you receive the transferred case. Provide the taxpayer with your name, address, phone number, etc.

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For PASS cases, you must ensure that the electronic file and physical file reach their new owner. Transfer the physical file at the same time as the electronic file. *Failure to follow case file transfer procedures may result in the delay of transferred cases, expired Statutes of Limitations, unprocessed Notices of Proposed Assessment, etc.* See GTAM 13280, *Transfer Case/Case Unit to Next Level*, for transfers to the GTA Technical Resource Section (GTA Program Review).

GTAM 4510      Transfers to Non PASS Users

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### 4510 Transfers to Non PASS Users

When transferring cases to non-PASS users such as auditors who do not yet have the PASS system, do the following:



- Contact the Recipient Unit or Auditor (by telephone or email).
- Note the contact in the Event Log.
- Print the case and assemble with the physical file.
- Transfer the physical file and the printed PASS file.
- Note the transfer in the Event Log.
- Close the electronic PASS file (see GTAM 13000, *Closing a Case/Case Unit*).
- Transfer the electronic file.

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You can print an entire case unit from PASS. The files will print in the following order:

- Index
- General Information
- Notice List
- Team Members
- Address Book
- Task Plan
- Event Log
- Sent Correspondence
- Workpaper File
- Administration
- Reports
- Schedules
- Preliminary Analysis
- Draft Correspondence (generally, nothing should be in this folder - See GTAM 9600, *No-Change Letters*, for details)
- Sent Correspondence

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- Received Correspondence
- Notes
- Audit Support
- Issue folders

The cross-reference footers, which appear on each printed document within a specified section, are listed below:

- Section A - General Information
- Section B - Notice List
- Section C - Team Members
- Section D - Address Book
- Section E - Task Plan
- Section F - Event Log
- Section G - Sent Correspondence
- Section H - Workpaper File (only the sections that have documents in them are printed and included on the Index)

Print each workpaper document with the cross-reference: *Type\Folder Name\Document Name\page #*. For example, if printing the third document in the Received Correspondence folder in type *Audit*, named "*Fax 02-28-1997*", which consists of two pages; it would print as follows: *Audit\Received Correspondence\Fax 02-28-1997\Page 1 of 2*, and *Audit\Received Correspondence\Fax 02-28-1997\Page 2 of 2*. Use this information to cross-reference the document to the narrative or write-up.

**NOTE:** The folder name in the footer of Draft Correspondence or Sent Correspondence documents prints as *Correspondence*. This should not create a problem since generally all documents in the Draft Correspondence folder are deleted when the case is closed. For the exceptions, see GTAM 9600, *No-Change Letters*.

### Taxpayers Serving in Combat Zones

Tax relief is available for military personnel deployed overseas or serving in a Presidentially declared combat zone. The California provisions mirror the federal relief provisions suspending deadlines for filing certain documents.

We automatically extend the period for performing the following acts for 180 days after the taxpayer returns to the United States:

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- Filing a protest
- Appealing FTB's action on a protest to the State Board of Equalization
- Filing a claim for refund
- Appealing FTB's denial of a claim for refund
- Replacing property under IRC 1031
- Paying tax bills
- Responding to audit requests

The extension is free from interest or penalties. If an audit is in progress, we suspend the audit unless the taxpayer designates someone else to take over. The taxpayer must notify us immediately upon return. This relief is for individual taxpayers only.

Use the following procedures to update the taxpayer's account upon knowledge they are serving in a combat zone or are stationed overseas.

IF:	THEN:	RESPONSIBILITIES
Taxpayer contacts employee outside of Audit	Employee forwards contact information to Audit Business Support.	Audit Business Support will forward: <ul style="list-style-type: none"><li>• Audit correspondence to the unit/maker.</li><li>• Correspondence regarding a pending NPA to the Protest Unit, other than notices issued by unit 348.</li><li>• Correspondence regarding unit 348 notices to maker.</li></ul>
Taxpayer calls employee outside of Audit and there is audit activity	Employee will obtain name of audit staff from the caller.	Employee will: <ul style="list-style-type: none"><li>• Update TI account</li><li>• Notify audit staff of call via email.</li></ul> If employee cannot ascertain the name of the audit staff, the employee will send the email to the manager of the GTA Technical Resource Section. That section will assume the

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		responsibility of identifying the proper audit staff.
Taxpayer contacts audit staff directly, Or Audit staff receives taxpayer contact information from Audit Business Support, Or Audit staff receives email from FTB employee regarding taxpayer's call	Audit staff obtains from the taxpayer (or person calling on behalf of taxpayer) necessary information to complete responsibilities.	<p>Audit staff will:</p> <p>Check the taxpayer's TI account to see if the military data field says "Yes" (Audit Business Support can assist with TI transactions). If so, verify the "Begin Date" and "End Date" on the Military Service Display screen (CID "ML").</p> <ul style="list-style-type: none"><li>• Add a comment to the taxpayer's TI account: Taxpayer is serving in a combat zone.</li><li>• Record the caller's name and relationship to the taxpayer.</li><li>• Suspend audit action on the account until 180 days after taxpayer returns from combat.</li><li>• If audit is in progress, and the taxpayer requests it, delay any action and provide follow-up dates.</li><li>• Add a note to the PASS file and keep the case in your PASS inventory. Follow-up with taxpayer when they return and continue the audit.</li><li>• Determine if taxpayer will benefit from receiving <i>Publication 1021 California Tax Information for Military Personnel</i>. It</li></ul>

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		<p>provides information about filing returns, signing on behalf of a spouse, what to do if owing back taxes, and if military pay is taxable.</p> <ul style="list-style-type: none"><li>• Follow up any discussions with a letter documenting status.</li></ul>
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